

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, JULY 18, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, July 18, 2006, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and Interim City Clerk Perrin

B. TOPIC(S)

B-1 "Community Development Block Grant Economic Development Program"

Joseph Wood, Community Improvement Manager, presented the draft guidelines, loan application, and the roles and responsibilities for the revolving loan fund (RLF) program (filed), the purpose for which is to create employment for the targeted income group and benefit the general community of Lodi. No limitations were recommended on the types of businesses to be served—it is open to any form of business—and no specific geographic priorities were established—it is open citywide. The guidelines establish a priority in the application process for those businesses that would improve the tax base either through sales tax or transient occupancy tax. Under eligible use of loan funds, acceptable uses would be for land costs, infrastructure, building costs, and new equipment; however, capital costs would not. Currently, there is \$150,000 allocated toward the RLF, and the size of the loan amount will be evaluated on a case-by-case basis. Alternatively, instead of a limit on the loan amount, a target of two loans per year could be established. The RLF, over time, will replenish itself and will increase the City's capacity.

Mr. King added that he believed very few people would use loan funds for building costs, as it would trigger federal prevailing wage requirements. Most will use the loan funds for equipment, fixtures, or furnishings.

In response to Council Member Hansen, Mr. King defined working capital as the cash needed to operate, for which there are security and collateral requirements.

In response to Council Member Hansen, Mr. Wood confirmed that the program includes a great deal of monitoring to ensure the money is spent appropriately.

Mr. King stated that the Council would be requested to endorse the program criteria and an outside third party would review the business pro forma and evaluate the loan. The business pro forma would include information pertaining to the costs for fixtures, furnishings, and professional services, the proposed return, and how much personal and borrowed money was invested.

Mr. Wood reported that the term of the loan would be three to seven years. The job creation ratio is one job for every \$35,000 lent, which is the minimum established by federal guidelines and is intended to create jobs within the targeted income group. The collateral requirements are pre-fixed at one to one (or 100%) collateral for the project costs. Staff is still reviewing the process as to who is responsible for the various functions of program operation administration. The loan review process would have two phases: the initial review would be performed by City staff as to whether or not it met the established guidelines and the second review would be done by a loan review committee. Following the two reviews, the final approval would be by the City Manager. Regardless of the payment options

(deferral or annual payments), on-going maintenance would be done throughout the year in order to avoid issues before they develop.

In response to Mayor Pro Tempore Johnson, Mr. Wood stated that the City would either establish a review committee or utilize an existing program to perform the monitoring.

Council Member Hansen questioned what would happen with the collateral if a business were to fail and what the success rate is in this program.

Paula Connors with the Economic Development Advisory Loan Committee for the State of California Community Development Block Grant (CDBG) program stated that the City would not own the collateral; however, if the applicant failed to make the payments, the collateral would come to the program and the City would liquidate it. Due to depreciation, the City would not receive 100% on the dollar. Loans should be given to businesses that have a strong, stable history and that have been in business for at least three to five years. The financial review would take into account income, performance, revenues, and ability to make payments and would be documented by financial statements and tax returns. Making the loan is the easy part; the difficult part is the monitoring and servicing, making sure the collateral is there, and ensuring the job requirement is still being met. She suggested contracting with an agency, such as a bank, to perform the loan monitoring services. Ms. Connors estimated a 10% failure rate.

Mr. King stated that the RLF could be used to achieve a particular goal for the community, such as offering a specific type of restaurant or a hotel that would stimulate the tax growth. Loan proceeds can also be used to pay for impact fees. Even if a business were to fail, the specific goal might still be achieved if a new owner continued the business.

In response to Mayor Pro Tempore Johnson, Mr. King stated that the Council would approve the program criteria (i.e. types of loans, terms, etc.). An outside third party would review the loans, and Council would receive regular reports on the status of the loans and the success and failure rate. The City Council would have the ability to change on a forward basis the loan criteria and the job creation ratio.

In response to Mayor Hitchcock, Mr. King stated that, in order to avoid the appearance of favoritism, the Council is removed from the loan review process and an outside review committee would protect the integrity of the process. In addition, the loan application requires certain information be provided that a business would not want its competitors to see, and this information would be subject to a public records request, which would discourage many people from applying.

City consultant, Carleen Bedwell, Managing Principal with Applied Development Economics, reported that the detailed loan information is provided to the program operator, which is then summarized and provided to the loan committee. The information remains confidential and is not a part of the public process. The results are then summarized in a credit memo and forwarded to the City Manager for final approval, after which he would report to Council the name of the business and the loan amount. The credit memo would be an analysis of the loan underwriting conclusions; however, it would not include the detailed information of the business tax returns, five-year projections, or business plan. Those documents are provided to the program operator. In the 20 cities she has worked with, all have the decisions made at the City Manager level.

In response to Mayor Hitchcock, City Attorney Schwabauer stated that there is no specific statutory reference that provides confidentiality for these particular records; however, they would not fall in the category that the concerns over privacy outweigh the public's interest, nor is there attorney-client privilege. The Brown Act states that the public has a right to

view information presented to Council in document form, and he believed that the City would be unable to maintain confidentiality of those records.

Mr. King stated that the City could require two applications: one containing the required detailed loan information and the second containing generic information with the business name, address, and basic business plan, which would be available to Council and the public.

Council Member Hansen believed that many opportunities would be lost due to the public information and disclosure act as most do not want to disclose their business plans. He concurred that Council establish the allocation amount, the number of loans per year, and its community goals (i.e. type of business, location, etc.) and believed it was unnecessary for Council to receive the detailed loan documentation.

Mayor Hitchcock responded that Council has a responsibility for this CDBG money and she wanted to ensure it was handled appropriately and responsibly. She expressed concern that the City would not have adequate staff to handle the overseeing and monitoring of the loans and questioned what the cost would be to have an outside organization take on those duties.

Mr. King stated that there are three cost options: contracting with a private lending institution, contracting with the county or the county affiliate, or contracting with an individual. Staff is still reviewing these options and will have a recommendation when this matter comes back before Council.

Ms. Bedwell stated that the CDBG program allows activity delivery funds as an eligible use for program operation.

In response to Mayor Pro Tempore Johnson, Mr. Wood confirmed that there currently is no program income, from which to draw in order to start up this program; however, there are CDBG and HOME funds for low- and moderate-income housing assistance that could be applied toward the initial program administration.

Council Member Hansen expressed concern about allocating additional funds to this loan program as it would take money away from the brick and mortar type CDBG programs.

Mr. King stated that the federal government has recognized that the use of CDBG money to stimulate the local economy to create jobs for low- and moderate-income individuals is an appropriate use of CDBG money. He pointed out that the money goes back into this program for multiple uses, which is extremely beneficial should CDBG program funding be reduced or eliminated.

Mayor Pro Tempore Johnson questioned if the \$150,000 allocation could be banked for a period of time in order to build a larger pool, to which Mr. Wood replied that the ability to bank CDBG funds is based upon the balance and only 1.5 times the annual allocation is allowed to be carried over.

Wendell Youngsma with the San Joaquin County RLF Program stated that the county's success rate is over 90% and that the keys to a successful program are carefully reviewing the applicants, structuring the deal, and collecting the loan payments. Ten to fifteen percent of the loans go into default (i.e. more than 90 days past due); however, the county will work with the applicant by providing time to restructure or recapitalize or offer interest only for six months to a year in order to get the loan paid back. He attributed this effort to the high success rate. The county guidelines do not require 100% collateral to make the loan go through the committee, and if there were not enough business assets for collateral, personal assets would be used in its place.

In response to Council Member Hansen, Mr. Youngsma stated that he believed the program was very successful in stimulating the economy and creating jobs. The county's guideline is one job for every \$20,000 lent, and applicants are allowed one to two years to meet those goals.

PUBLIC COMMENTS:

- Steve Jarrett questioned why non-profit organizations were not listed under eligible applicants.

Ms. Bedwell stated that the CDBG program normally considers the loan program for private sector jobs because it is on the economic development side for profit-making businesses. CDBG money generally benefits non-profit organizations on the general side of the program as a grant or for community facility improvements.

Mr. Jarrett stated that Goodwill recently moved back into Lodi, which is an employment and training facility, and he believed it should be eligible for the loan program if it wanted to expand and bring more employees into Lodi.

Mayor Hitchcock responded that non-profit organizations, including Goodwill, would be eligible for CDBG funds in the form of a grant and they would not be required to pay back that money.

Council Member Mounce questioned if the job monitoring would track whether the employees are in the target area, to which Mr. Wood responded that this is a citywide program, so the jobs would not have to be created within the target area. Ms. Mounce expressed concern that employees from Stockton would not benefit our target area.

Mr. King stated that there could be a first source hiring agreement that would look first to hiring someone from Lodi and would then expand outside the area should no one be interested.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:17 a.m.

ATTEST:

Jennifer M. Perrin
Interim City Clerk